

Comments on “The Global Financial Crisis and Its Impact on the Financial Regulatory Framework: The Philippine Case”

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Lessons from Two Crises

- The Asian Financial Crisis (AFC):
 - Crisis in Asia, No crisis in USA or in EU,
 - Banking Crisis,
 - Critics for Asian bank-based financial system.
- The Global Financial Crisis (AFC):
 - Crisis in USA and in EU,
 - Asian banking sector was relatively healthy,
 - Liquidity crisis,
 - Financial crisis outside commercial banking,
 - Risk from financial innovation and new technology.

Asian Financial Market After AFC

- Several economists pointed out that vulnerability of the financial system in East Asian countries was responsible for the crisis.
- Asian economies' financial systems had fundamental problems because of unorganized and immature systems and supervision.
- After the crisis, most East Asian countries accelerated liberalization of their financial system.

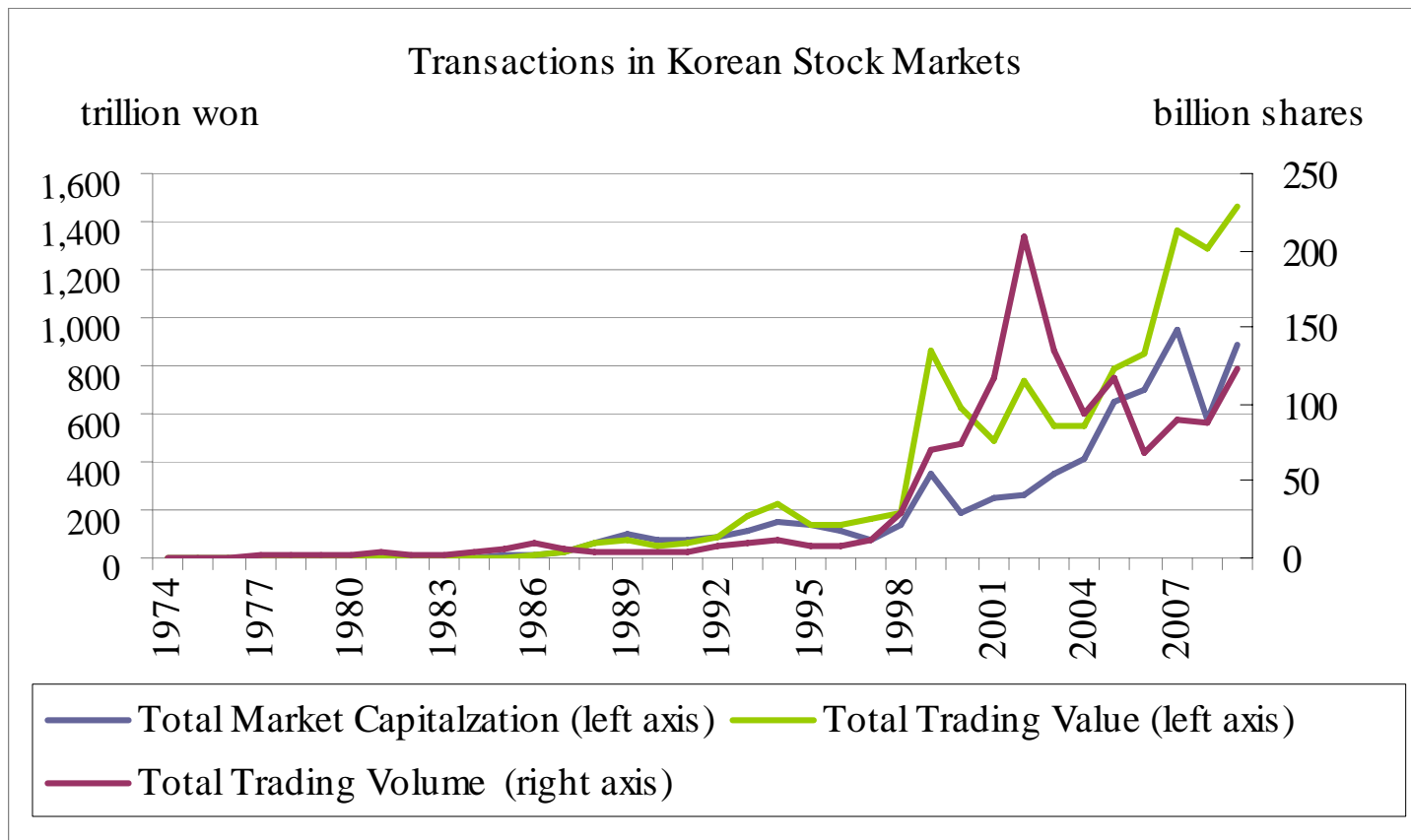
Areas of Banking Reforms

- Supervision
 - Corporate governance
 - Risk management
 - Asset clean-up
- ⇒ Enhance asset quality = smaller NPL,
- ⇒ Improved profits in financial sector

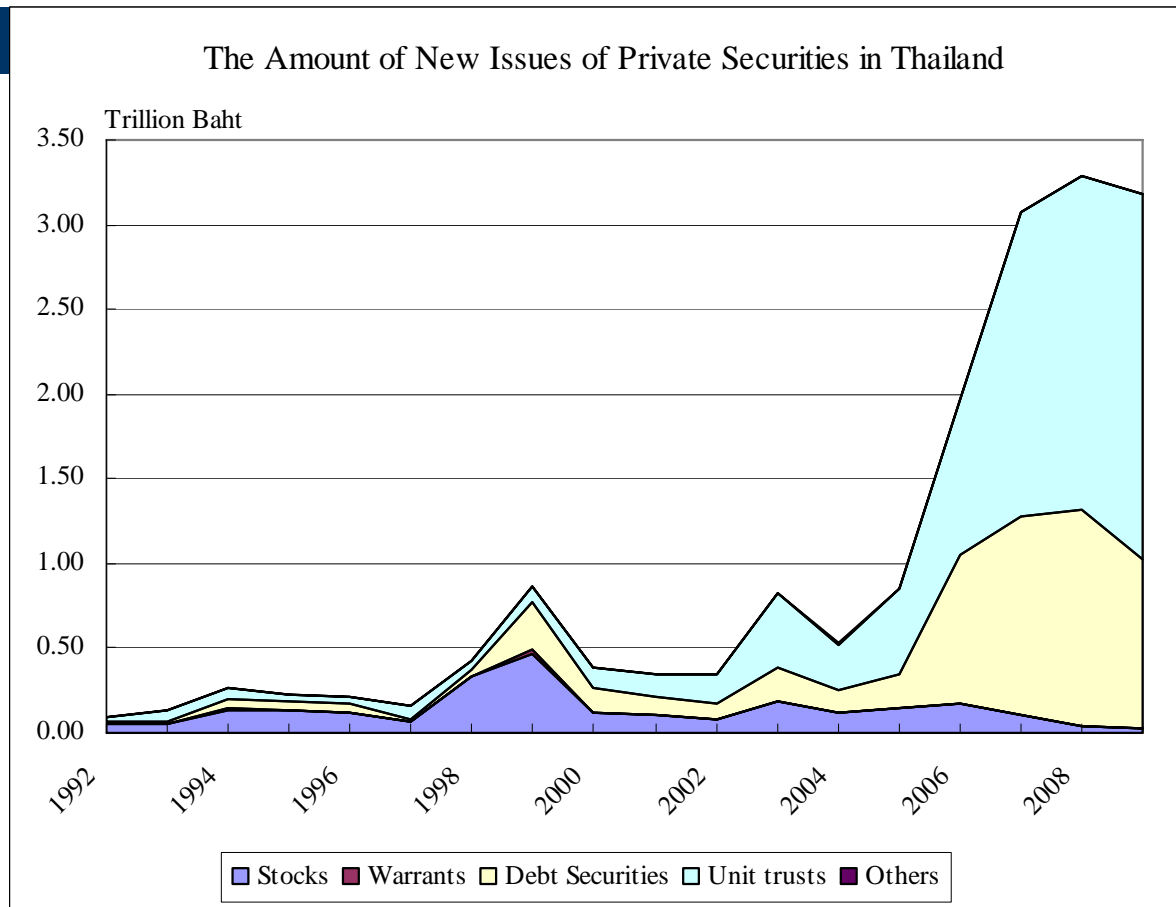
The Reform was especially conspicuous in open markets

- Many East Asian economies accelerated development of open markets:
 - Stock market
 - Security markets

The volume of transactions in Korean stock markets



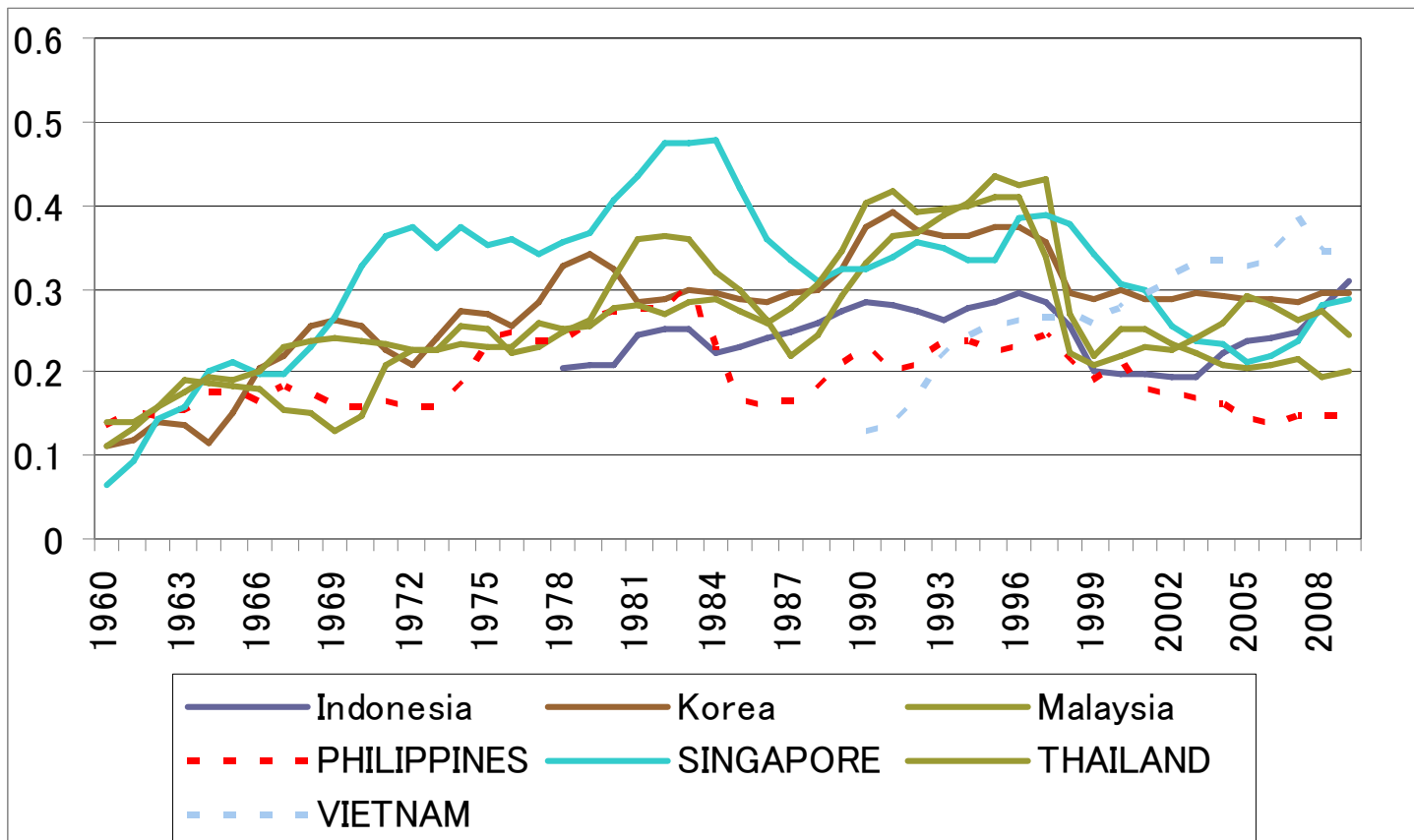
New issuances of private securities and its components in Thailand



Asian Economies After AFC

- However, the Asian crisis not only slowed growth rates but capital accumulation in Asia.
- The investment plummeted after the late 1990s and remains low since.
- This is in marked contrast with the fact that the saving rates remain high ever since.

The Investment Ratios in selected East Asian countries



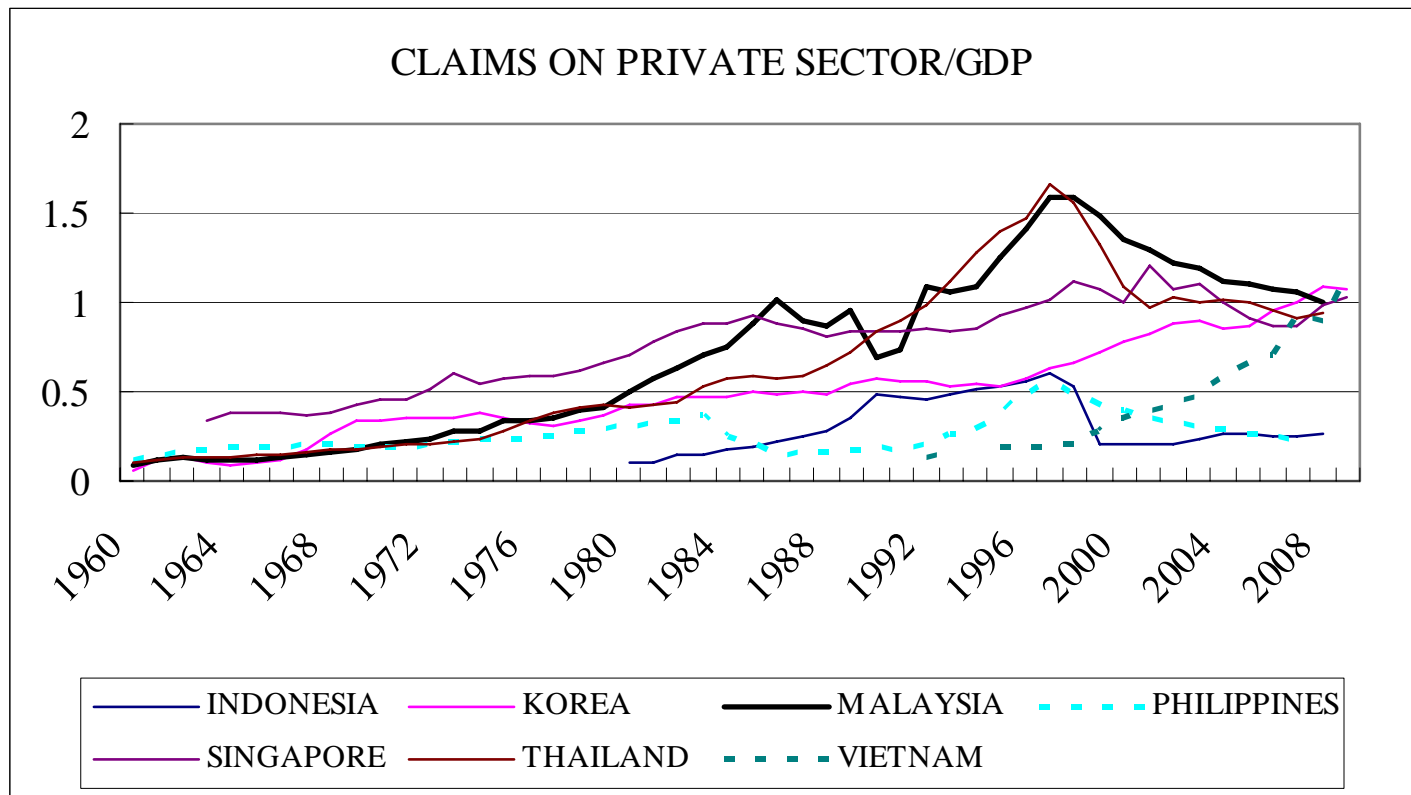
Implications from Traditional Indicators of Financial Development

- Even though many of East Asian countries accelerated liberalization after the crisis, they could not improve traditional indicators of financial development as they did before.
- The failure of traditional financial development might be responsible for persistent stagnation of capital accumulation after the Asian crisis.

Traditional Indicators of Financial Development

- (1) the ratio of M2 to GDP: a broader notion covering not only loans but also securities investments and other assets.
- (2) the ratio of domestic credit to GDP credit extended to the private sector, general government, and the nonfinancial public sector as well as loans to state enterprises
- (3) the ratio of claims on private sector to GDP : a narrower notion

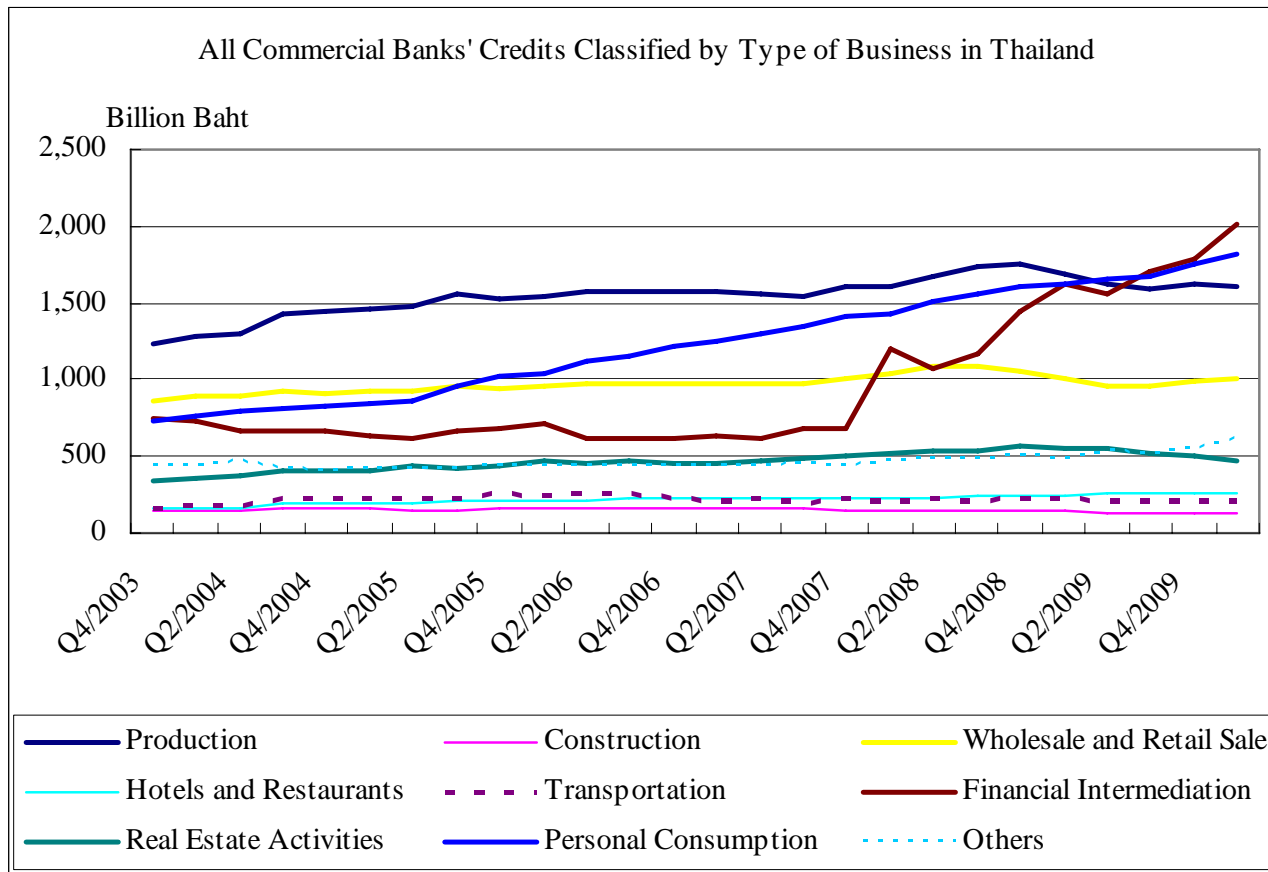
Claims on private sector in Asia



Thailand: Commercial banks' credits

- Banks' credits to manufacturing sector, which was 1.3 billion Baht in 2004 increased to 1.6 billion Baht in 2009.
- But, the increases were much smaller than those of debt securities by the financial sector during the same period.
- Financial Intermediation as well as personal consumption became one of the most important destinations of commercial banks' credits in 2009.

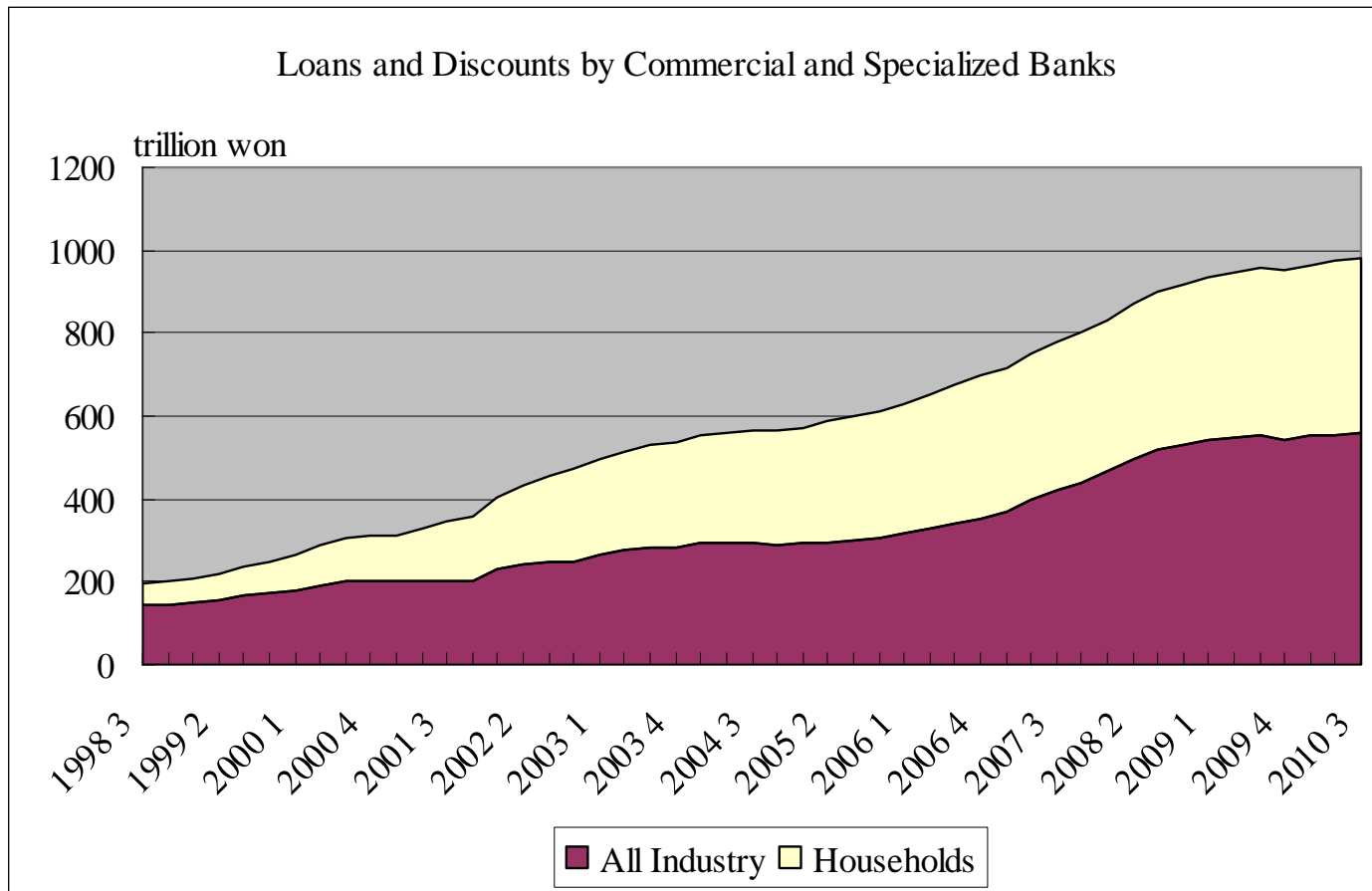
Commercial banks' credits classified by type of business in Thailand



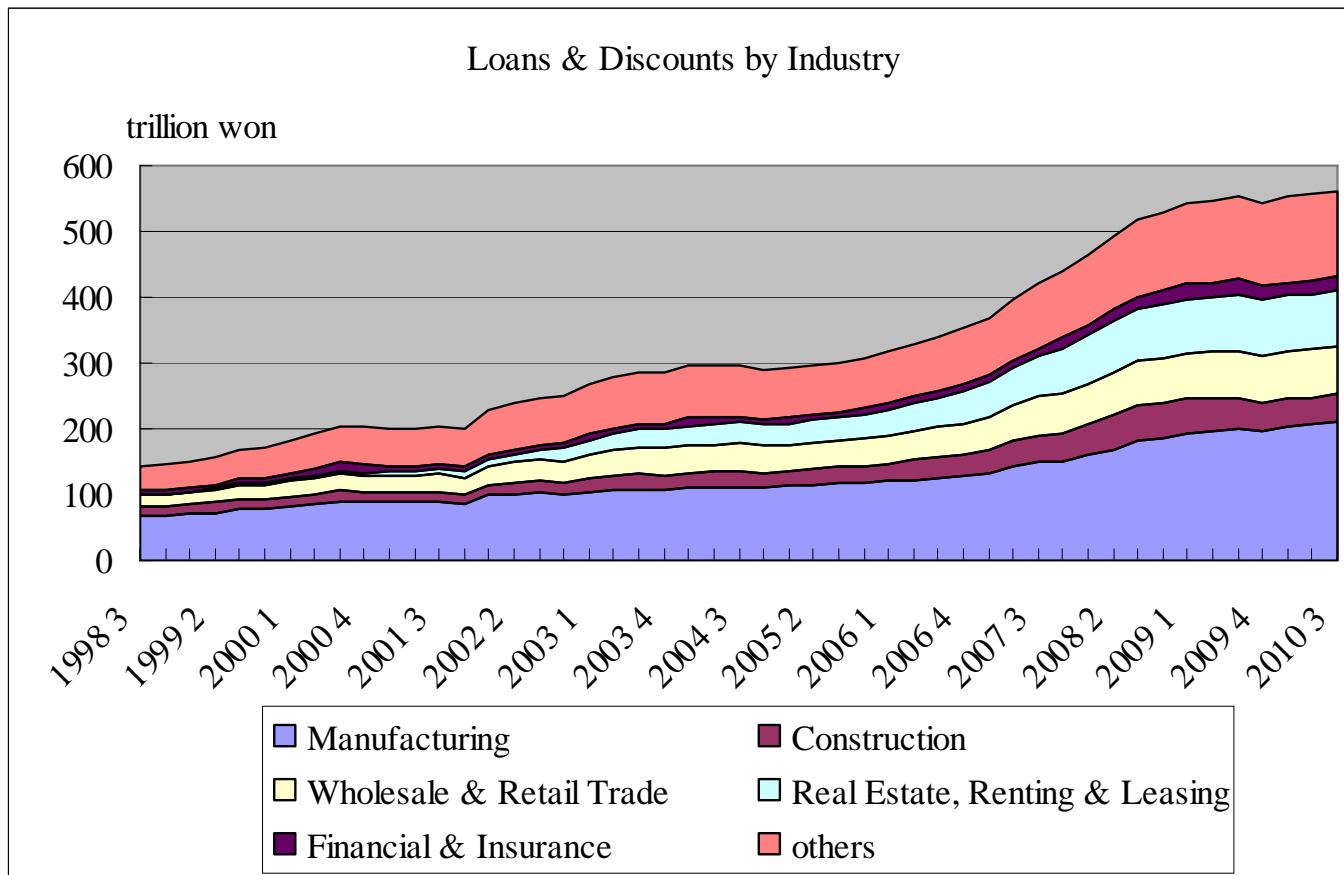
Korea: credit markets

- Loans and discounts rose steadily throughout the 2000s.
- However, the increases were attributable to increased loans to households.
- Credits to manufacturing sector increased to some extent.
- But loans to the other industries (real estate, renting & leasing industry and wholesale & retail trade industry) also increased.

The amount of loans and discounts outstanding by Korean banks



The amount of loans and discounts outstanding by industry



Implications

- Asian economies traditionally relied heavily on either bank lending or internal markets.
- The traditional financial systems changed dramatically after the Asian crisis.
- However, despite liberalization, they could not improve the traditional indicators.
- The failure of traditional financial development might be responsible for stagnated capital accumulation in East Asia.

Implications

- Fundamental problems in Asian financial markets might be different from those in US or EU financial markets.
- We may need different financial regulations:
 - US or EU financial markets \Rightarrow Basel III
 - Asian financial markets \Rightarrow ?